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THE CHALLENGE OF YOUTH EMPLOYABILITY IN MENA

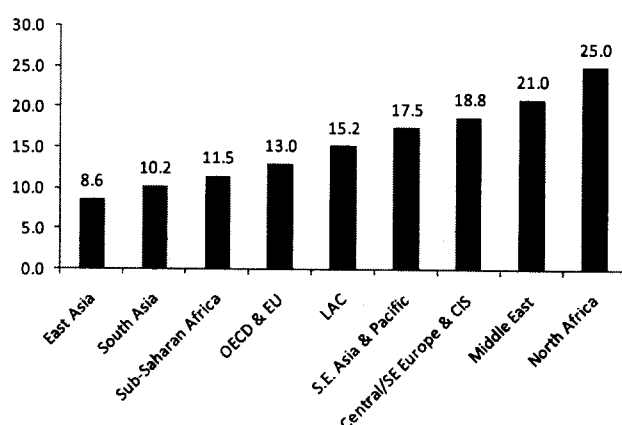
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INTRODUCTION

Many MENA countries, especially Arab Mediterranean countries, face important and overlapping challenges. Youth unemployment rates in MENA (21% in the Middle East and 25% in North Africa) are higher than in any other region in the world. Young women and new educated entrants in the labor market are disproportionately unemployed. Moreover, young entrants to the labor market have become more educated than ever before but are unable to capitalize on the time and resources invested in their education because of lack of good-quality jobs in the respective labor markets.

Figure 1: Youth Unemployment rates (%)

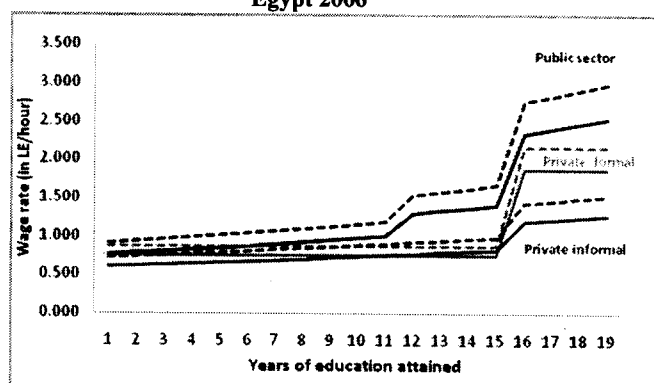


Source: KILMnet 2006.

To cope with scarce formal jobs, young-educated workers are opting to work in the informal sector and/or withdraw from the labor force. It is worth noting that acquiring informal jobs is a way for young/educated university graduates to enter the labor market, gain experience, and eventually move into formal employment. In practice, however, there is little mobility between the formal and the informal sectors. Having to rely on informal sector jobs constitutes an important loss of human capital for young entrants. Returns to education (even among those with university education) tend to be very low in the informal sector. Informal jobs are generally low-wage, which

suggests low levels of productivity compared to the formal sector. In reality, net hourly wages among informal workers in the private sector are quite low (Figure 2).

Figure 2: Returns to Education per Years Attained
Egypt 2006

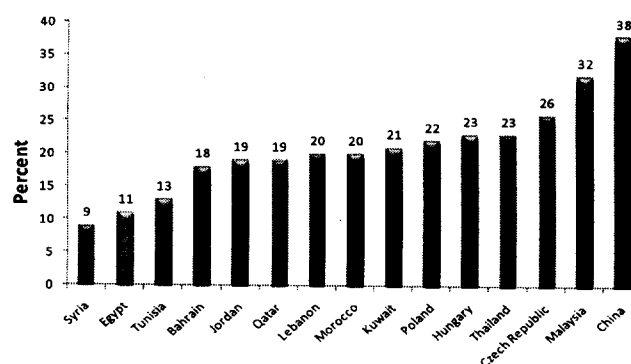


Source: World Bank Estimates using data from Labor Force Surveys.

MAIN CONSTRAINTS PREVENTING NEW ENTRANTS FROM GETTING JOBS

(a) *Investments in the Private Sector remain low and capital intensive.* Despite great improvements in recent years, private investment remains low in MENA (Figure 3). Due to high energy subsidies and negative real interest rates, most private investments in MENA focus on capital intensive activities. According to ICA surveys, corruption, unfair competition, and macro-economic uncertainty are important barriers to greater private investment. The recent private sector regional flagship report identified the issues of arbitrariness and unequal implementation of the rules of the game as the core problems constraining private sector development.

Figure 4: Private Investment as % of GDP



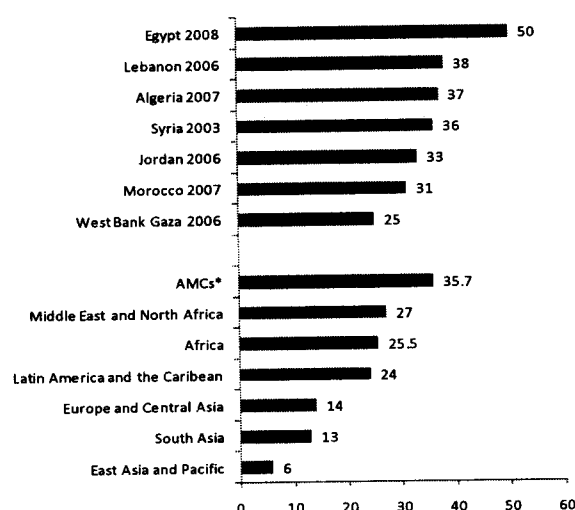
Source: Source: World Bank (2009)



While progress in reforming the rules vary among countries, the region as a whole suffers from discretionary implementation of policies, and from lack of government credibility to change a deeply rooted status quo of privileges and unequal treatment of investors. No MENA country exhibits the kind of dynamism and economic transformation witnessed in Malaysia, China, the Republic of Korea, Poland, Turkey, and other fast-growing economies. Export diversification is also insufficient. The best MENA performers export around 1,500 goods—most of which low in technological content—compared with close to 4,000 in countries like Poland, Malaysia or Turkey. The technological content of these exports is about three times lower in non-oil MENA countries compared to East Asia's or Eastern Europe. Also, firms are less productive than in comparative countries.

(b) Skills Mismatches. Results from enterprise surveys indicate that firms identify worker skills and education among their top five constraints to business climate in the region, especially in Arab Mediterranean countries (AMCs) (Figure 5). Employers not only express their dissatisfaction concerning deficiencies in relevant experience and technical skills but also concerning soft skills such as personality traits, social graces, interpersonal skills, and language and personal habits. A large share of new graduates in higher education major in humanities and social sciences. This pattern of enrollment is suited for absorbing university graduates in civil services jobs in the public sector, but appears ill suited recent private sector expansion of the manufacturing and service sectors. Furthermore, despite important efforts in recent years to improve TVET, system remains largely fragmented and the effect of programs in labor market outcomes of participants remains unassessed.

Figure 5: Share of Firms Indicating Labor Skill Level as a Major Constraint to Business Creation



Source: www.enterprisesurveys.org

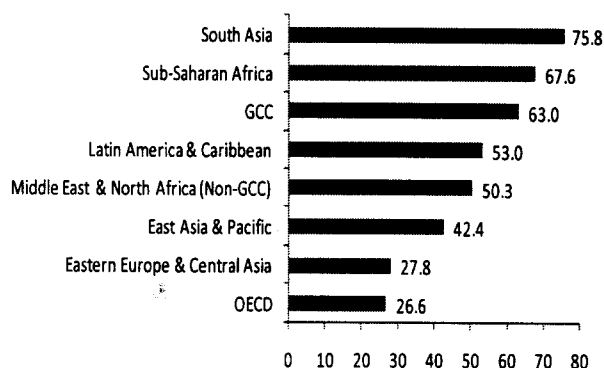
(c) Public Sector still distorts incentives: In many MENA countries, civil service remains large for its levels of development. Despite the fact that the employment growth of the public sector has slowed dramatically in recent years, public sector employment still accounts for a large share of all formal sector employment in many countries in North Africa. Since public sector jobs are still associated with relatively generous medical and retirement benefits, relatively short work hours, and transportation benefits, many educated individuals (mainly women) still queue for public sector jobs. This phenomenon undermines entrepreneurship among young educated workers and contributes to long unemployment spells.

(d) Labor Regulation remains rigid and labor taxes remain high: Firing regulations in MENA remain quite strict and firing costs remain high. While the termination of workers due to redundancy is legally authorized in all MENA countries, most countries have complex regulations that require notification, justification, and approval for dismissals. In some countries, employers are even required to comply with stipulated obligations to reassign and/or retrain workers after termination. Furthermore, firing costs involving notice requirements, severance payments, and penalties due when terminating a redundant worker, are rather high in most countries in the region. Protective firing regulation is partially explained by the lack of unemployment insurance



schemes in most MENA countries. One indicator generally used to compare firing costs is the “Redundancy Cost Indicator” (RCI). The indicator measures the cost of advance notice requirements, severance payments and penalties due when terminating a redundant worker, expressed in weeks of salary. Results indicate that the RCI in MENA countries account for 50 weeks of salary on average vs. 28 in Europe and Central Asia (ECA), and 27 among OECD countries (Figure 6).

Figure 6: Redundancy Cost Indicator [In Weeks of



Salary]

Source: Angel-Urdinola and Kuddo (2010)

WHAT POLICY OPTIONS CAN FACILITATE SCHOOL-TO-JOB TRANSITION IN MENA

Countries in MENA should consider engaging in a process of labor market reform, with 4 main pillars:

(a) *Making Labor Markets more Flexible.* Economic efficiency and worker protection could be achieved if governments set an overarching goal of “protecting the income of workers as opposed to protecting particular jobs” through, for instance, the expansion of unemployment insurance schemes and the revision of firing regulation. A reform in labor regulation in MENA must go hand in hand with a reform in the social protection system. Adopting a lifecycle approach to work may require shifting from the concern of protecting particular jobs to a framework of support for employment security including social support, unemployment insurance, and active measures to assist workers during periods of transition.

(b) *Reforming Active Labor Market Program (ALMPs) and Intermediation.* Recent analysis conducted in MENA indicated that governments often rely on the provision of ALMP to mitigate

youth unemployment risks. However, majority of ALMPs (mainly training and entrepreneurship support) lack the necessary mix of design features to make programs effective. Youth entrepreneurship programs, for instance, are one policy tool that has been used recently by many MENA countries, with some limitations: high cost per-capita of interventions (especially if they a link to start-up capital), low repayment rates, and a low take up (due to the high cost, these programs can only reach a small share of all unemployed youth). Youth training, also a very common ALMP in MENA, has been largely ineffective as programs remain supply-driven and of low quality. ALMPs may need to be revised to include important elements such as (i) Public-Private partnerships: training programs should be directly linked to an internship with a private employer previously identified by the training institution; (ii) Provision of hard and soft skills: program should provides youth not only with technical skills, but also with life skills; (iii) provision of practical experience; (iv) Flexibility: classes should offer different schedule alternatives; (v) Monitoring and Evaluation: most of the programs in MENA do not rely of experimental techniques to monitor the impact of the program on participant labor market outcomes and (vi) low-income school drop-outs should be increasingly targeted by designing second chance programs aiming to re-insert youth into non-formal and formal education (accelerated learning) or formal education (Box 1).

Investing in Education Quality: The most recent empirical growth research has emphasized the seminal role of quality of education. Quality of education has a positive impact on rates of return at the individual level:

(c) more than years of schooling, it is learning -- that is, the acquisition of cognitive skills -- that produces gains in individual productivity and income. In turn, education quality is positively associated with national economic growth as well: As more people acquire cognitive skills, become more productive, earn more, and rise out of poverty, countries benefit by realizing gains in economic growth and equity. Research shows that differences in cognitive skills lead to economically significant differences in economic growth, and that school policy can, if effective in raising cognitive skills, be an important force in economic development. It is therefore difficult to envision a higher impact and more cost-effective national investment than improving quality of education for any Arab



country, be it lower, middle, or upper income. Policy makers in the region should note that unless systematic and coordinated action is taken to significantly improve the current weak state of quality of education, Arab nations may see themselves slip behind emerging economies.

Box 1: Business Plan Program in Tunisia

One action supported by the Tunisia 2010-2012 Employment Development Policy Loan program is the business plan competition “*Entreprendre et Gagner*”, which tries to remedy possible barriers between the education system and the labor market proactively. The project attempts to encourage entrepreneurial and innovative activities of university students with the ultimate goal of enabling them to create their own company and job. The first pilot phase of the project took place during academic year 09/10. It combines writing a thesis on an enterprise project, including a business plan, and the submission of the thesis to a competition whose winners receive a financial prize as well as professional guidance to incubate the project. During the writing phase, the students receive support via (i) enterprise courses at university, (ii) supervision by their professors and (iii) hands-on coaching through start-up experts from ANETI, API or the private sector. An impact evaluation was embedded in project design in order to assess its effectiveness.

(d) Innovation and Investments on R&D: In all knowledge economies, competition and strong firm turnover are at the core of this innovation process. Moving-up the production ladder and to more knowledge-intensive activities in MENA will require improvements in the investment climate that favor innovation-based competition and business entry and exit. To achieve this there is a need to (i) promote linkages between higher education and the private sector, (ii) review governance and financing of higher education in order to promote linkages with private sector firms and increase public-private financing of research, (ii) design mechanisms (such as technology incubators) to promote the ‘third mission’ of higher education organizations and increased participation of students in research and development. Also, MENA countries need to capitalize on migrant diasporas abroad by introducing wider measures to encourage the engagement of high-skilled diasporas in research and innovation projects in academic institutions and firms. Finally, it is important to re-focus education curricula. Introduce entrepreneurship, life skills, and business training in education curricula across specializations that can foster innovative thinking and creativity.